

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 Fremont Street, 21<sup>st</sup> Floor  
San Francisco, California 94105**

**RH03026432**

**July 28, 2003**

**CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM  
UNINSURED MOTORISTS AND MEDICAL PAYMENTS COVERAGES**

<p><b>Summary of Comments and Department Responses Original and Extended Comment Period Ending May 16, 2003</b></p>
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1. COMMENT (Oral and Written)

At the public hearing on May 7, 2003, Richard Manning, Regional Director of the California Automobile Assigned Risk Plan (CAARP), summarized CAARP's rate recommendation pertaining to rates and coverage limits for the optional uninsured motorists bodily injury and medical payments coverages required by Senate Bill 1427, a copy of which is available for public review in the rulemaking file. For an actuarial explanation of its proposal, CAARP referred to a memorandum submitted on November 21, 2002,<sup>1</sup> a copy of which is also available for public review in the rulemaking file. Mr. Manning commented that to calculate rates for uninsured motorists and medical payments coverages, CAARP used CAARP data as a starting point and followed the approach it used to develop a rate option for basic rates.

Based on its analysis of CAARP data, CAARP proposes rates for uninsured motorists bodily injury coverage, at \$10,000/\$20,000 limits, of \$761 for Los Angeles county and \$531 for the City and County of San Francisco. For medical payments coverage, at \$1,000 limits, CAARP proposes rates of \$142 for Los Angeles County and \$89 for the City and County of San Francisco. Mr. Manning noted that the initial studies completed by Donald Bashline, from which the legislature set initial program rates, were based on voluntary market data. The commenter contends, however, that CAARP data should be used because the lack of previous insurance and nonrenewals characterizing the low cost auto policyholder is more consistent with CAARP policyholders. CAARP also proposes that the installment payments under the new legislatively mandated premium payment plan be paid on a monthly basis.

In response to a question from panelist Eric Johnson regarding the use of zip code data by the Department in its calculations, written testimony by AIPSO's actuary, John Winkleman, concurred that the use of zip code data was appropriate to assure an equitable distribution of loss costs among risks.

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<sup>1</sup> The actuarial explanation was submitted on November 21, 2003 as part of CAARP's request for amendments to the Low Cost Automobile Program's Plan of Operations, Filing No. 02-07, to conform to certain changes mandated by 2002 Stats., chapter 742 (formerly SB 1427).

## 1. RESPONSE

The Department has carefully reviewed CAARP's rate application, exhibits and memorandum and considered the comments and declines to accept the rate and payment schedule proposals, but accepts CAARP's recommendation for coverage limits for the additional coverages. Using the approach first developed by consulting actuary Donald Bashline for the initial rates for the low cost auto policy, the Department has determined that the current rates for uninsured motorists bodily injury and medical payments coverages, established by emergency regulation on January 13, 2003 and readopted effective May 6, 2003, are adequate and meet the rate-setting standards of California Insurance Code (CIC) Sections 11629.72 and 11629.92. Please refer to the Final Statement of Reasons, pages 1 and 2.

Calculating rates based on data from basic limits policies in the voluntary market, rather than data based on CAARP policyholders, is reasonable and consistent with the legislature's approach in setting initial rates for the pilot program, and consistent with Senator Escutia's approach in reducing rates enacted in 2002 Stats., chapter 742. In fact, it replicates the approach taken by CAARP in developing one of the rate options in its 2002 rate recommendation. As to nonrenewal characteristics, the data is incomplete and not sufficient for analysis.

In accepting CAARP's proposals for coverage limits, the Commissioner has determined that liability limits for uninsured motorists bodily injury coverage equal to the limits of liability in the underlying automobile policy of \$10,000 for bodily injury or death to one person, subject to a cumulative total of \$20,000 for all persons in one accident, is consistent with CIC §11580.2 and conforms to provisions of 2002 Stats., chapter 742. CAARP's proposal for medical payments coverage limits of \$1,000 is reasonable and consistent with the coverage limits of CAARP policies, and consistent with consumer recommendations.

After consideration of consumer comments, the Commissioner has determined that the payment schedule for the six installment payments required under the additional payment option mandated by recent legislation shall be permitted on a bi-monthly basis. The bi-monthly payment schedule is consistent with existing premium payment plans and supports the objective of the pilot program to provide an affordable insurance option to low-income good drivers.

Section 25 of the program's Plan of Operations will be amended to add the availability of uninsured motorists bodily injury coverage, at limits of \$10,000/\$20,000, and medical payments coverage at limits of \$1,000.

Section 26 of the program's Plan of Operations will be amended to add the new installment premium payment option required by legislation, specifying a fifteen percent down payment with the remainder to be paid in six payments on a bi-monthly basis.

Section 27 of the program's Plan of Operations will be amended to show rates of \$64 for Los Angeles and \$39 for the City and County of San Francisco for uninsured motorists bodily injury coverage and rates of \$26 for Los Angeles and \$24 for the City and County of San Francisco for medical payments coverage.

## 2. COMMENT (Oral and Written)

At the public hearing, Douglas Heller, Senior Consumer Advocate with the Foundation for Taxpayer and Consumer Rights, commented that the Low Cost Auto Insurance Program is an essential part of addressing the uninsured motorist problem because a poor family cannot afford private market rates. Mr. Heller objected to CAARP's rate proposals as too high, commenting that a rate for uninsured motorists coverage 120 percent of the price for the low cost auto policy itself is not reasonable or actuarially sound. Based on written technical comments submitted as testimony by the Foundation's actuarial expert, Allan Schwartz, a copy of which is available for public review in the rulemaking file, Mr. Heller commented that the rates established by the Department through emergency regulations were more appropriate. According to Mr. Schwartz's analysis of indicated rates, Mr. Heller proposed rates for uninsured motorists of \$35 for Los Angeles and \$32 for San Francisco. For medical payments, Mr. Heller commented that Mr. Schwartz's analysis indicated a rate of \$27 for Los Angeles, one dollar higher than the current rate, and \$24 for San Francisco, the same as the current rate. If not lower rates, at the very least, Mr. Heller encouraged the Department to maintain current rates for the optional coverages.

In commenting on CAARP's use of CAARP data, Mr. Heller pointed out there were differences between the CAARP driver and low cost auto purchaser because, by statute, the low cost auto driver must be a good driver. Responding to questions from panelist Eric Johnson about driver characteristics of previous insurance and nonrenewal, Mr. Heller commented that previous insurance is not a valid characteristic because it is not an allowable rating factor and that data about nonrenewals is not clear. He emphasized that an individual's driving record is a key characteristic.

As to the coverage limits, Mr. Heller commented that a limit of \$1,000 for the medical payments coverage was appropriate.

Mr. Heller also recommended that the payment schedule for the new payment plan option should be bi-monthly to spread payments out, in the interest of affordability.

In response to a question from panelist Eric Johnson regarding the use of zip code data by the Department in its calculations, Mr. Schwartz submitted additional testimony indicating that the rates produced by the methods used by the Department are within the range of reasonableness.

## 2. RESPONSE

The Department accepts the alternative recommendation to maintain current rates of \$64 for Los Angeles county and \$39 for the City and County of San Francisco for uninsured motorists coverage and rates of \$26 and \$24 for Los Angeles and San Francisco,

respectively, for medical payments coverage. The Department declines to accept the recommendation for lower rates because it is based on actual experience which is not fully credible. Please refer to the response to Comment No. 1 for further explanation of the Department's rationale. The Department accepts the commenter's suggestion for bi-monthly payments for the new premium payment option. Section 25 of the program's Plan of Operations will be amended to reflect the \$1,000 coverage limit for medical payments coverage, Section 26 will adopt the premium payment schedule of bi-monthly payments, and Section 27 will be amended to maintain current rates established and readopted by emergency regulations for the additional coverages.

### 3. COMMENT (Oral and Written)

At the public hearing, Mark Savage, on behalf of the Consumers Union, commented on the important underlying public policy concerns of keeping low rates for the pilot program. Referring to exhibits submitted, a copy of which is available for public review in the rulemaking file, he compared voluntary market prices listed in the Department's 2002 Auto Premium Survey for all basic coverages of bodily injury, property damage, uninsured motorists and medical payments to CAARP's rate proposal. For example, Mr. Savage pointed out that State Farm's premium for all combined basic coverages for a good driver, in San Francisco, is \$640. In comparison, CAARP proposes a premium of \$531 just for uninsured motorists coverage at lower limits. Mr. Savage pointed out that, in Los Angeles, voluntary market rates for all basic coverages combined were less than what CAARP proposes for uninsured motorists coverage alone at lower limits. Mr. Savage recommended that rates should be no higher than those established by the Department through emergency regulations.

Mr. Savage also commented on the importance of keeping installment payments at the lowest possible amount for people with limited income.

### 3. RESPONSE

The Department accepts the commenter's recommendation to maintain current rates of \$64 for Los Angeles County and \$39 for the City and County of San Francisco for uninsured motorists coverage and \$26 for Los Angeles and \$24 for San Francisco for medical payments coverage. Further, the Department accepts the suggestion to keep payments at the lowest possible amount by spreading out the payments in a bi-monthly payment schedule. Also, the Department notes Consumers Union's public policy concerns regarding the importance of keeping rates low for the pilot program.

Section 27 of the program's Plan of Operations will be amended to reflect these rates and Section 26 will be amended to indicate bi-monthly payments for the new premium payment option.